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# Two Choices for Selling Tickets

I am by no means an expert on things related to Taylor Swift or Bruce Springsteen, but even I am aware that ticket sales for their recent concert tours have been controversial. From an economic viewpoint, there are really two choices for pricing tickets for the show of a megastar who can sell out large arenas. Tyler Smith offers a short interview with Eric Budish on this topic in “Market design and live events” (March 20, 2023, AEA Research blog).

The tickets to high-profile concerts may seem disconcertingly expensive. But from an economics point of view, if the arenas are selling out at their official price and there is an active resale market at a substantially higher price, then the tickets are “underpriced” – in the specific sense that others are willing to pay more than their face value. In the old pre-internet days, this willingness to pay more than face value of tickets could show up in other ways as well, like starting the line hours or days early, so that getting tickets involved paying with time as well as money.

Budish argues that there has been an equilibrium shift. In the old days, while there was some resale of tickets for big shows, it was relatively limited. Thus, the performance groups were willing to sell ticket at a face value that was probably somewhat lower than they could have gotten, but the performers wanted a sold-out show and a long-term relationship with fans (and perhaps

to encourage sales of recordings and merchandise), so they were willing to take a lower ticket price. But when ticket sales went online, the situation changed. Budish says:

I think there was an old equilibrium, and it's old in the sense that it describes the ticket market probably for the whole 20th century. In this pre-internet equilibrium, tickets were often underpriced and often sold out quite quickly. Many tickets were purchased by speculative resellers, but the large majority of tickets were purchased by ordinary fans. The best numbers come from a great research paper by Phil Leslie and Alan Sorensen. They estimate that in the pre-internet era of the ticket market, it may have been about 5 percent of tickets that went through the secondary market. The internet really transformed the tickets market starting in the first decade of the 21st century. The internet changed the technology of both the primary market and the secondary market.

The internet technology made it a lot easier to amass large numbers of tickets for events all across the country, really all across the world. There were economies of scale in the amassing of large quantities of tickets, whereas in the good old days ticket resellers had to stand in line. But there is just a lack of scale economies to that. Whereas if you can use an algorithm to scoop up underpriced tickets in the primary market, you can do it at substantial scale. The resale of tickets also changed with the internet because now most of the secondary market goes through internet platforms like StubHub and SeatGeek and TickPick. The secondary market with the rise of the internet is also a lot easier to use.

I think that there was this kind of uncomfortable tension in the pre-internet era when it was a little weird that artists were often pricing their tickets significantly below the market-clearing price. But you can kind of make up stories for why it might be in an artist's long-run interest to do that. Most of the value from the underpricing is at least accruing to the intended recipients of the underpricing, i.e., to the fans. But the internet kind of broke all that with the rise of algorithms—bots as they are sometimes described—in the ticket market. And in a very low friction, globalized resale market, a lot more of the rents are just accruing to brokers. Ticketmaster estimated that it's 20 percent.

They've described to me in a meeting that in the right tail, in some events, it might be as much as 90 percent.

Basically, if the resale market was not too extensive, performers were willing to charge less for tickets than the maximum they could get. Fans who saw the show benefited. But when performers recognized that they were selling tickets to brokers, who were then marking them up substantially and reselling them, the benefit of lower-priced ticket sales was going to the brokers and not the fans. Ticket prices for many prominent shows skyrocketed.

There are two ways to approach this situation. On one side, accept that brokers and the ticket resale market are going to be active. As a result, many of those attending any particular show will have purchased above-face-value tickets. In this situation, performers will raise ticket prices substantially so that a larger share of the higher prices come to them, rather than the brokers. Some performers will have an online auction of their own to sell tickets, as Ticketmaster is essentially doing for some events already.

The other approach is to try to choke off the role of ticket brokers and the resale market in some way. As a simple example, selling tickets only in blocks of four or eight is a step in this direction. But these kinds of rules just lead to an arms race between the programmers, where ticket brokers have an incentive to write programs which can purchase MANY blocks for four or eight tickets for resale.

What seems like the ultimate way to turn off brokers is that when you buy a ticket, your name is attached to it. Think about airline tickets, for example. Your name is on the ticket, and broker can't just buy large blocks of plane tickets for popular flights and then just resell them on the internet. In practice, it might work this way: You buy tickets in advance. But when you show up at the event, you need to show them the credit card that was used to buy a ticket and a photo ID. The ticket-taker has a hand-held machine that scans your credit card, and then prints out a slip of paper with your seats on it.

One can imagine various creative ways to get around this arrangement, but it comes pretty close to turning off the resale market. The only way to exchange

your ticket is to sell it back to the original seller, who is the only one that can link a ticket to a personal credit card. Budish says:

In an ideal world, I think there's essentially two economically logical ways to sell tickets. One is to sell tickets at a market-clearing price. The auctions were an effort to do that. The other way to do it is to set a below market-clearing price, but turn off the rent-seeking. The way to do that is essentially to put names on tickets, which makes tickets nontransferable or harder to transfer—in the same way that if I buy an airline ticket and my plans change, I can't resell that ticket on eBay or StubHub. One of the policy goals ought to be if artists want to sell their tickets at a market-clearing price, great. That's sort of standard Econ 101. And that's already quite feasible with the current market structure. I think the other thing that policy might have a role in facilitating is enabling artists to have a sincere option to set a below-market price and turn off the resale market if they want. There have been some efforts. In the United States the euphemism is “paperless ticketing.”

In other words, there is a technical fix for performers who say that they would like to sell tickets at lower prices and shut out the ticket brokers. You can even combine this system with a lottery approach: that is, everyone who wants tickets registers at the website before a certain time, specifies what tickets they are willing to buy, and random chance determines who gets seats. Of course, the real problem is that we all want both lower-priced tickets and the ability to get the seats we want—and for high-profile events, that's not possible for everyone.

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